Friday, 8th February 2013 Session 7: 9:00am - 10:30am

Session 7A: New Venture Creation

Room: P Block 504

Session Chair: Erin Castellas

The Bottleneck in the Entrepreneurial Process: An Agent-Based Modeling and Simulation Approach

Jaehu Shim

Abstract

The emergence of new economic activity is at the heart of entrepreneurship. Agent-based modelling and simulation (ABMS), unveils the process of emergence, has been recommended as a third research methodology in entrepreneurship for the purpose of supplementing quantitative and qualitative methodologies. However, application of ABMS in this field remains scarce due to the lack of researcher's awareness and modelling methods. This study suggests a new agent-based modelling method that uses bibliometric analysis, and applies this method to explain the business venturing process. As results, we find that ABMS is viable to entrepreneurship research, and the lack of investment is the bottleneck in the entrepreneurial process in some nations.

Business Planning, Innovation and Performance in Nascent Firms

Christophe Garonne

Principal topic

Debate about the relationships between business planning and performance has been active for decades (Bhidé, 2000; Mintzberg, 1994). While results have been inconclusive, this topic still strongly divides the research community (Brinckmann et al., 2010; Chwolka & Raith, 2011; Delmar & Shane, 2004; Frese, 2009; Gruber, 2007; Honig & Karlsson, 2004).

Previous research explored the relationships between innovation and the venture creation process (Amason et al., 2006, Dewar & Dutton, 1986; Jennings et al., 2009). However, the relationships between business planning and innovation have mostly been invoked indirectly in the strategy and entrepreneurship literatures through the notion of uncertainty surrounding the development of innovation. Some posited that planning may be irrelevant due to the iterative process, the numerous changes innovation development entails and the need to be flexible (Brews & Hunt, 1999). Others suggested that planning may facilitate the achievement of goals and overcoming of obstacles (Locke and Latham, 2000), guide the venture in its allocation of resources (Delmar and Shane, 2003) and help to foster the communication about the innovation being developed (Liao & Welsh, 2008). However, the nature and extents of the relationships between business planning, innovation and performance are still largely unknown.

Moreover, if the reasons why ventures should engage (Frese, 2009) –or not- (Honig, 2004) in business planning have been investigated quite extensively (Brinckmann et al., 2010), the specific value of business planning for nascent firms developing innovation is still unclear.

The objective of this paper is to shed some light on these important aspects by investigating the two following questions on a large sample of random nascent firms: 1) how is business planning use over time by new ventures developing different types and degrees of innovation? 2) how do business planning and innovation impact the performance of the nascent firms?

Methods & Key propositions

This PSED-type study draws its data from the first three waves of the CAUSEE project where 30,105 Australian households were randomly contacted by phone using a methodology to capture emerging firms (Davidsson, Steffens, Gordon, Reynolds, 2008). This screening led to the identification of 594 nascent ventures (i.e., firms that were not operating yet at the time of the identification) that were willing to participate in the study. Comprehensive phone interviews were conducted with these 594 ventures. Likewise, two comprehensive follow-ups were organised 12 months and 24 months later where 80% of the eligible cases of the previous wave completed the interview.

The questionnaire contains specific sections investigating business plans such as: presence or absence, degree of formality and updates of the plan. Four types of innovation are measured along three degrees of intensity to produce a comprehensive continuous measure ranging from 0 to 12 (Dahlqvist & Wiklund, 2011). Other sections informing on the gestation activities, industry and different types of experiences will be used as controls to measure the relationships and the impacts of business planning and innovation on the performance of nascent firms overtime. Results from two rounds of pre-testing informed the design of the instrument included in the main survey.

The three waves of data are used to first test and compare the use of planning amongst nascent firms by their degrees of innovation and then to examine their impact on performance overtime through regression analyses.

Results and Implications

Three waves of data collection have been completed. Preliminary results show that on average, innovative firms are more likely to have a business plans than their low innovative counterpart. They are also most likely to update their plan suggesting a more continuous use of the plan over time than previously thought. Further analyses regarding the relationships between business planning, innovation and performance are undergoing.

This paper is expected to contribute to the literature on business planning and innovation by measuring quantitatively their impact on nascent firms activities and performance at different stages of their development. In addition, this study will shed a new light on the business planning-performance relationship by disentangling plans, types of nascent firms regarding their innovation degres and their performance over time. Finally, we expect to increase the understanding of the venture creation process by analysing those questions on nascent firms from a large longitudinal sample of randomly selected ventures.

We acknowledge the results from this study will be preliminary and will have to be interpreted with caution as the business planning-performance is not a straightforward relationship (Brinckmann et al., 2010). Meanwhile, we believe that this study is important to the field of entrepreneurship as it provides some much needed insights on the processes used by nascent firms during their creation and early operating stages.